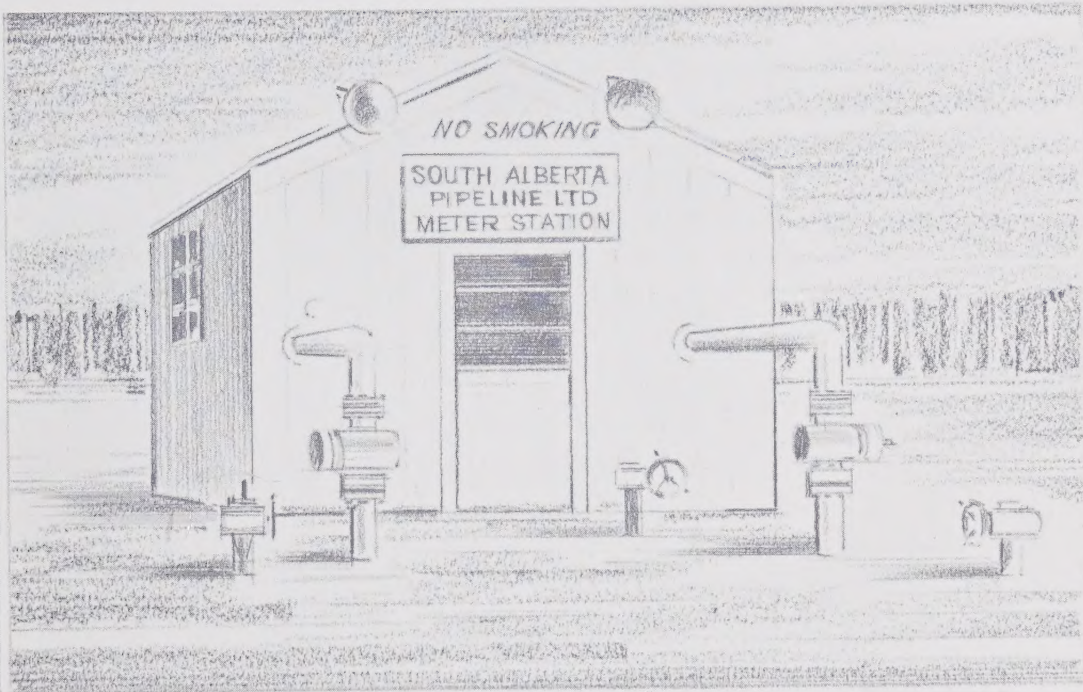


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# MIDCON OIL AND GAS

L I M I T E D



## *Annual Report*

AS AT MARCH 31st, 1964

# MIDCON OIL AND GAS LIMITED

## OFFICERS AND DIRECTORS

OFFICERS	J. BRADLEY STREIT - - - - - President
	J. J. GRAY - - - - - Vice-President
	J. F. PAXTON - - - - - Vice-President
	A. A. WEISS - - - - - Vice-President
	W. E. REARDEN - - - - - Secretary-Treasurer
	GEORGE BROWN - - - - - Asst. Secretary-Treasurer
DIRECTORS	J. BRADLEY STREIT - - - - - Toronto
	J. J. GRAY - - - - - Toronto
	J. F. PAXTON - - - - - Toronto
	A. A. WEISS - - - - - Toronto
	J. DOUGLAS STREIT - - - - - Toronto
AUDITORS	LEVER, HOSKIN, CHAGNON & MACGILLIVRAY - - Toronto, Ontario
BANKERS	CANADIAN IMPERIAL BANK OF COMMERCE - - Toronto, Ontario
	ROYAL BANK OF CANADA - - - - - Toronto, Ontario
TRANSFER AGENTS	GUARANTY TRUST COMPANY OF CANADA - Toronto and Calgary
HEAD OFFICE	707-7TH AVENUE S.W. - - - - - Calgary, Alberta
EXECUTIVE OFFICE	80 RICHMOND ST. WEST, SUITE 1002 - - - Toronto, Ontario



## *Report of the Directors*

To the Shareholders  
MIDCON OIL & GAS LIMITED.

Your Directors take pleasure in submitting herewith the Annual Report of your Company for the fiscal year ended March 31, 1964, with detailed Financial Statements, Balance Sheet, and the Auditors' Report.

Midcon Oil & Gas Limited has just completed another successful year, as perusal of Financial Statements will reveal. Net operating profits, in excess of \$100,000, were at approximately the same level as in the previous year. The net loss for the year reported at \$99,633.23 in the Profit and Loss Statement, was after write-offs of over \$200,000.00 in well development costs which had been accumulated in prior years. Net working capital, including quoted value of marketable securities, again was higher than last year, at \$686,726.32, compared with \$617,232.75.

Of perhaps even greater significance, however, are two developments during and since the close of our fiscal year, which hold great import for the future. First of these developments was the acquisition by Pembina Pipe Line Ltd. of the 50% interest previously held by Asamera Oil Corp. in South Alberta Pipe Lines Ltd., along with Asamera's interest in the Etzikom Gas Field. Midcon Oil & Gas continues to own the other 50% of the pipeline company as well as our interest in the Etzikom Gas Field.

With the advent of this new partner came the second important development. Midcon and Pembina several months ago jointly embarked on an accelerated program of expansion in the Medicine Hat area which should assure in future years a continued and substantial rise in earning power of your Company from its major interests in this steadily-growing Medicine Hat gas-consuming area of southern Alberta.

### ETZIKOM MEDICINE HAT AREA

The jointly-owned Midcon-Pembina subsidiary, South Alberta Pipe Lines, has firm markets under contracts extending over the next eight and twelve years to supply a total of approximately 60 billion cubic feet of gas to the City of Medicine Hat and the Northwest Nitro-Chemicals Ltd. plant there. The latter is controlled by Commercial Solvents Corp. of the U.S.

In the Midcon Annual Report a year ago it was noted that Northwest Nitro was then considering expansion plans. These plans have now materialized. Northwest Nitro recently let a contract to increase its plant capacity by 50%, which will increase its gas requirements proportionately beginning about November 1st this year. At the same time the City of Medicine Hat now appears to be in a gas-deficient position, despite its reported recent acquisition of additional gas reserves. Your Company and Pembina, therefore, are the only Medicine Hat area source of gas sufficient to supply the expanding demand which is building up so quickly in this area.

It is estimated by our Consultants that present firm requirements for gas in our operational area, for the next 25-year period, will total a minimum of 140 billion cubic feet of gas reserves; and it can reasonably be projected that eventual demand during these 25 years may reach well over 200 billion feet. Midcon and Pembina, accordingly, are jointly just completing the acquisition of extensive Gas Leases, acreage, gas

wells, and contracts for future delivery of gas, which will increase our available deliverable gas reserves to a total of 137 billion cubic feet. Further gas reserve acquisitions are being negotiated. Plans are also being made to drill some eight to twelve new gas wells on the acreage recently acquired in the Medicine Hat field.

Not only is Midcon thus assured of sizable and greatly increased gas sales for a long period of years, and of resultant higher revenue and profits, but considerable expansion of throughput for a similar number of years is thus also assured for our jointly-owned South Alberta Pipe Lines Ltd.

### OTHER MIDCON ALBERTA OPERATIONS

#### Oil and Gas Production

Midcon owns a 9% interest in 8 producing D-3 oil wells in the Acheson field and a 50% interest in two D-2 oil wells in the Leduc oil field. All these wells continue to produce steadily and to yield a significant production income to MIDCON. During the past year, Midcon farmed out the operation of two marginal oil wells in the Skara field to Engineering Specialties (Alberta) Limited and these wells are now back on production. These wells had been shut down in December, 1961 when continued operation became uneconomic but they are now back on production and 25% of the net profit from these wells accrues to Midcon.

#### Inter-Rock Oil Co. of Canada

Midcon owns almost a 50% interest in Inter-Rock Oil Co. of Canada Ltd. The principal Inter-Rock interests are as follows:

##### Nevis Gas Field

Inter-Rock owns a 0.23973% interest in the unitized Nevis gas field which has over 500 billion cubic feet of natural gas under a 20 year escalating price sales contract to Trans Canada Pipe Lines Ltd. Inter-Rock also owns its proportional share of the Nevis gas processing plant which extracts Sulphur and L.P.G. by-products from the Nevis gas before it is sold to Trans Canada.

##### Erskine Oil Wells

Inter-Rock owns a 12½% net working interest in seven producing D-3 oil wells in the Erskine oil field.

##### Buffalo Lake Oil Well

Inter-Rock holds a 6¼% interest in the Hunt Buffalo Lake 16-27 D-3 oil well in central Alberta which has over 100 feet of D-3 oil pay.

#### Exploratory Activity

During the past year Inter-Rock leases in the Nevis-Erskine area were farmed out for test wells to both King-Stevenson Oil and Gas and Altair Oil and Gas for two exploratory wildcat test wells. Both wells were abandoned as dry holes but partly as a result of information gained in drilling these wells a new farmout for a third test well is now being negotiated with the Northern Natural Gas Producing Co. These wells were drilled at no cost to Inter-Rock but Inter-Rock will receive a portion of the production revenue if oil or gas is discovered.



### SWAN HILLS AREA

Late last year Midcon purchased a 20% interest in a 320 acre Crown lease on the E/2 of 12, Tp 66, Rge 10, W5th in the Swan Hills oil field in partnership with Western Decalta Petroleum Ltd., Petrol Oil and Gas and Yellowknife Bear Mines Ltd. at an Alberta Government Crown Sale. This lease is now offset by two producing oil wells of the Pan American Petroleum Corp. in section 13 to the north and our first well in L.S.D. 10 of section 12 will be drilled in August or September of this year.

### INSURANCE CLAIM

A subsidiary company obtained judgment against insurance companies for the \$30,000.00 claimed. This judgment was approved by Ontario Appeal Court. Insurance companies have appealed to Supreme Court of Canada and this appeal will likely be disposed of this Fall. Judgment bears interest at 5% from December, 1962.

On behalf of the Board of Directors,

J. BRADLEY STREIT,  
President.

## Consolidated Balance Sheet

### ASSETS

#### CURRENT:

Cash, including interest bearing deposits of \$353,931.76 .....	\$ 397,692.03	
Accounts receivable .....	12,158.16	
Inventories — at lower of cost or market .....	7,281.88	
Accrued interest receivable .....	13,797.40	
 Total Current Assets .....		<u>\$ 430,929.47</u>

#### INVESTMENTS: (Schedule IV)

Marketable securities at cost (Market value March 31, 1964 — \$262,636) .....	\$256,883.25	
Other investments — at cost less amounts written down .....	664,722.75	921,606.00

#### PROPERTY AND EQUIPMENT — at cost (Note 3):

Interest in petroleum and natural gas leases and rights .....	\$181,273.39	
Capped gas wells .....	277,139.81	
Producing well costs, including production equipment .....	306,167.06	
	<u>\$764,580.26</u>	
Drilling tower and other equipment .....	\$56,693.54	
Less accumulated depreciation .....	46,823.38	9,870.16
		774,450.42

#### OTHER:

Prepaid expenses .....	\$ 265.00	
Insurance claim recoverable applicable to an equipment loss in a prior year — under litigation .....	30,000.00	
Refundable drilling deposits .....	5,000.00	35,265.00
		<u>\$ 2,162,250.89</u>

### AUDITORS' REPORT

To the Shareholders of  
MIDCON OIL AND GAS LIMITED.

We have examined the consolidated balance sheet of Midcon Oil and Gas Limited and its wholly-owned subsidiary, Aqua-Land Exploration Limited as at March 31, 1964, and the consolidated statements of profit and loss and deficit for the year ended on that date. Our examination included a general review of the accounting procedures, and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown on the books of the companies, with the exception of the accounting treatment for the depletion of producing leases, amortization of producing well costs and depreciation of production equipment described in Note 3, the accompanying consolidated balance sheet and consolidated statements of profit and loss and deficit are properly drawn up so as to exhibit a true and correct view of the state of affairs of the companies on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,  
June 16th, 1964.

LEVER, HOSKIN, CHAGNON & MacGILLIVRAY,  
Chartered Accountants.

S AT MARCH 31, 1964

## LIABILITIES

## CURRENT:

Accounts payable and accrued charges .....	\$	6,789.15	
Estimated corporation taxes payable .....		50.00	
Total Current Liabilities .....	\$	6,839.15	

## SHAREHOLDERS' EQUITY:

## CAPITAL:

## Authorized:

5,000,000 common shares — no par value

## Issued and fully paid:

4,300,000 shares .....	\$	3,353,505.43	
Less — Deficit (Schedule I) .....		1,198,093.69	2,155,411.74

Approved on behalf of the Board:

J. BRADLEY STREIT, Director.

A. A. WEISS, Director.

\$ 2,162,250.89

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 1964

- Note 1.** Midcon Oil and Gas Limited owns 50% of the issued and outstanding shares of South Alberta Pipe Lines Ltd., which was incorporated to construct and operate a pipe line from the Etzikom field to the City of Medicine Hat, Alberta. The Company also owns 50% of the issued and outstanding 5% First Mortgage, Redeemable, Sinking Fund Bonds issued by South Alberta Pipe Lines Ltd., to finance the project. Sinking Fund payments required by the Trust deed securing the 5% First Mortgage Sinking Fund Bonds have been waived by the bondholders. At March 31, 1964, the Company's investment in South Alberta Pipe Lines Ltd. exceeds its equity in the net assets of South Alberta by \$66,616.00. It has been the Company's policy not to take this deficit into account on its books.
- Note 2.** The accompanying financial statements include the accounts of the Company's wholly-owned subsidiary, Aqua-Land Exploration Limited. This Company has been inactive for a number of years and the loss of that Company for the year ended March 31, 1964 of \$14,714.26 resulted mainly from the write down of the equipment inventory and depreciation on that Company's drilling tower.
- Note 3.** No provision has been made for the depletion of producing leases, amortization of producing well costs, and depreciation of production equipment from the commencement of operations.
- Note 4.** A legal action instituted in a prior year against the Company by a third party claiming \$650,000.00 in damages, allegedly arising from an employees' action has not been settled at this date. The claim is not admitted by the Company and in the opinion of the Company solicitor the Company is in no way liable.



## SCHEDULE I

**CONSOLIDATED STATEMENT OF DEFICIT  
FOR THE YEAR ENDED MARCH 31, 1964**

Balance March 31, 1963 .....		\$ 1,082,949.12
Add:		
Net loss for the year .....	\$ 99,633.23	
Organization and reorganization expenses written off .....	8,619.59	
Loss on disposal of work boat .....	2,921.75	
Loan receivable written off as uncollectible .....	3,970.00	115,144.57
Balance March 31, 1964 .....		<u>\$ 1,198,093.69</u>

## SCHEDULE II

**STATEMENT OF CONSOLIDATED PROFIT AND LOSS  
FOR THE YEAR ENDED MARCH 31, 1964**

**Income:**

Royalties earned .....	\$ 556.47	
Net revenue from Oil and Natural Gas sales after royalties and operating charges .....	83,018.00	\$ 83,574.47

**Expenses:****Exploration and Development:**

Engineering and supervision .....	\$ 950.00	
Lease rentals .....	6,652.75	
Insurance .....	776.05	
Depreciation expense on drilling tower .....	4,057.74	
Storage charges .....	200.00	\$ 12,636.54

**General and Administrative:**

Bank charges and interest .....	\$ 476.53	
Depreciation, furniture and equipment .....	100.52	
Directors' fees .....	1,750.00	
Legal and audit .....	3,118.50	
Rent and office services .....	5,400.00	
Executive salaries .....	5,625.00	
Miscellaneous office expense .....	628.98	
Shareholders' information and publicity .....	1,323.69	
Telephone and telegraph .....	506.00	
Transfer Agents fees and expenses .....	2,367.65	
Travelling expense .....	327.00	21,623.87
Net income from operations .....		<u>\$ 49,314.06</u>

**Other Income:**

Interest income .....	\$ 49,674.84	
Dividend income .....	2,320.00	51,994.84
Income before charging the undernoted items .....		<u>\$ 101,308.90</u>

**Other Expense:**

Development costs on abandoned properties .....	\$192,204.87	
Loss on disposal of equipment inventory sold in the year .....	1,537.26	
Provision for decline in value of the inventory of equipment .....	7,200.00	200,942.13
Net loss for the year .....		<u>\$ 99,633.23</u>



## SCHEDULE III

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 1964**

**Source of Funds:**

Net loss for the year .....	\$ 99,633.23	
Add non-cash charges for depreciation and abandoned well costs .....	196,363.13	\$ 96,729.90
Proceeds on sale of drilling boat .....		3,000.00
Decrease in deferred and other assets .....		1,045.13
		<u>\$100,775.03</u>

**Application of funds:**

Investment in Government of Canada bonds .....	\$198,500.00	
Purchase of other investments .....	4,051.22	
Well development costs in the year .....	900.09	
Interests acquired in leases .....	15,186.15	218,637.46
Working Capital Decrease in the Year .....		<u><u>\$117,862.43</u></u>

**COMPARATIVE STATEMENT OF CONSOLIDATED WORKING CAPITAL**  
**AS AT MARCH 31, 1964**

	Year 1964	1963	Increase or (Decrease)
Current Assets .....	\$430,929.47	\$553,377.85	(\$122,448.38)
Current Liabilities .....	6,839.15	11,425.10	4,585.95
Working Capital Decrease .....	<u>\$424,090.32</u>	<u>\$541,952.75</u>	<u><u>(\$117,862.43)</u></u>

## CONSOLIDATED STATEMENT OF INVESTMENT IN

	Balance March 31, 1963	
	Par Value or Shares	Cost
<b>Bonds:</b>		
Government of Canada — 4½ %, September 1, 1983 .....	\$20,000.00	\$18,050.00
Hydro-Electric Power Commission of Ontario — 5%, April 1, 1977 .....	6,000.00	6,000.00
Government of Canada — 3¾ %, September 1, 1965 .....		
<b>Shares:</b>		
Consolidated West Petroleums Limited .....	23,200	34,333.25
		<u>\$58,383.25</u>

## CONSOLIDATED STATEMENT OF INVESTMENTS IN ASSO

Inter-Rock Oil Co. of Canada Limited

— Common Shares .....

South Alberta Pipe Lines Ltd.

— 5% First Mortgage, Redeemable, Sinking Fund Bonds, Due May 1, 1966 .....

— Common Shares .....

Northwest Nitro-Chemicals Limited

— Subordinate debentures, Due June 30, 1979 .....

— Common Shares .....

Other nominal interests in inactive or defunct companies .....



## SCHEDULE IV

## MARKETABLE SECURITIES AS AT MARCH 31, 1964

<u>Additions in the Year</u>	<u>Balance March 31, 1964</u>		<u>Market Value March 31, 1964</u>
	<u>Par Value or Shares</u>	<u>Cost</u>	
	\$ 20,000.00	\$ 18,050.00	\$ 18,150.00
	6,000.00	6,000.00	5,760.00
\$198,500.00	200,000.00	198,500.00	199,750.00
	23,200	34,333.25	38,976.00
		<u>\$256,883.25</u>	<u>\$262,636.00</u>

## LIABILITIES AND OTHER COMPANIES AS AT MARCH 31, 1964

## SHAREHOLDINGS

<u>Par Value of Bonds</u>	<u>Number of Shares</u>			<u>Cost Less Amounts Written Off</u>
	<u>Free</u>	<u>Escrowed</u>	<u>Total</u>	
	532,946.5	299,928.9	832,875.4	\$ 2.22
602,500.00				542,250.00
	160,001		160,001	80,000.00
100,000.00	21,500		21,500 }	42,469.53
				1.00
				<u>\$664,722.75</u>

